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RUEATR/DEPT OF TREASURY WASHDC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 03 BRATISLAVA 000870

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TAGS: [ENRG](#) [ECON](#) [EPET](#) [PREL](#) [PGOV](#) [LO](#) [RS](#)

SUBJECT: SLOVAKS SEEK RUSSIAN DEAL FOR TRANSPETROL STAKE

REF: BRATISLAVA 816 AND PREVIOUS

Classified By: Ambassador Rodolphe M. Vallee for reasons 1.4 b) and d)

11. (C) Summary - Frustrated by an inability to strike a deal with either Yukos International or Yukos Finance, Economy Minister Lubomir Jahnotek has begun direct negotiations with the Russian government. The GOS is seeking a deal that would move the 49 percent Transpetrol stake temporarily in the hands of Russian bankruptcy administrator Eduard Rebgun, with Gazpromneft as a likely subsequent buyer, in exchange for management control and a commitment to meet the original commitments outlined in August by the GOS. These include completing a connection to Schwechat in Austria and allowing Caspian crude to transit the pipeline. The Slovaks view this scenario as a good compromise in that it meets their need for a quick deal and allows them to save face by regaining management control without angering the Russians. The deal is not without complications, however; Jahnotek is getting mixed messages as to the Russians' true intentions. We will continue to engage with GOS interlocutors to encourage them to pursue alternative strategies in case they are unable to reach a favorable deal with the Russians, or if such a deal is held up by lengthy court proceedings. End Summary.

-- RUSSIANS SEEN AS THE BEST OPTION --

12. (C) During a 10/24 meeting with Ambassador and Steve Hellman, Minister Jahnotek informed us that he has been actively negotiating with the Russian government on a deal that would allow a Russian company, likely Gazpromneft, to purchase the 49 percent stake that is currently owned by one of two Yukos Netherlands-based subsidiaries, Yukos Finance (YF) and Yukos International (YI). In exchange for its approval of the Yukos transaction with Gazpromneft, the GOS would regain management control with three Transpetrol board members compared with the current two (out of five) that they currently have. In addition, Slovakia would receive a commitment from Russia to fulfill three other conditions: (1) to complete the connection to Schwechat in Austria; (2) to allow up to five million tons of Caspian crude to flow through the pipeline; and (3) to change elements of the shareholder's agreement.

13. (C) Minister Jahnotek told us that he only has a verbal agreement with the Russian government, and several details still need to be worked out. This agreement was apparently reached during a secret trip that Jahnotek made to Moscow during the first week of October. The Minister set the wheels in motion for this plan on October 9 by calling for a meeting of the Transpetrol General Assembly (EGM) to replace the two Economy Ministry board members. We were surprised to learn about this call for a EGM because just three days before (See reftel) the TPBoard citing Rebgun's tenuous

ownership rights had denied Rebgun's attempt to call an EGM to replace the Yukos board members. Because the Economy Ministry's share ownership is not in dispute, the TP Board had no choice but to grant Jahnatek's request for the EGM, which is scheduled to take place on November 20. (Note: Jahnatek made no mention of his trip to Moscow or his plans to call an EGM when Ambassador met with him on October 10. In fact, we discussed our mutual relief that Rebgun's attempt to call an EGM was rejected by the TP board. When asked about his desire for an EGM in an October 11 phone call, Jahnatek said that he had been forced to call the meeting for political reasons; the two GOS board members were appointed by the previous government and are viewed as disloyal and uncontrollable by the current coalition. End Note.) Although changing the board members is the only item on the agenda for the EGM, if both shareholders agree additional items can be added to the agenda on the day of the meeting.

14. (C) Minister Jahnatek stressed that he had negotiated the deal with the Russian government, and not with Rebgun. (Note: He would not say who in the Russian government he had met with, but described the person as "Rebgun's boss," which is telling since Rebgun is in theory the independent receiver for Yukos Oil.) He noted that despite multiple requests he has never met with Rebgun, and openly questioned Rebgun's motives when we showed him a 10/24 article from the Russian daily newspaper Vremya Novostej where Rebgun boasts about taking back control of Transpetrol. Jahnatek is confused by the mixed messages he appears to be getting from Russian officials, which sounds to be more than just Rebgun, regarding the deal. The Economy Minister is scheduled to travel with President Gasparovic to Moscow for meetings beginning November 10 and said his top priority regarding

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Transpetrol would be to get a signal from Putin that makes it clear whether it is the Russian government, and not Rebgun as an individual, that is interested in making a deal with the Slovaks. Jahnatek was clearly unnerved by the prospects of angering Moscow, and specifically noted that any adverse action taken by the GOS regarding Transpetrol could negatively impact ongoing negotiations on long-term gas (both transit and domestic consumption) and nuclear fuel contracts.

-- NO CLEAN WAY TO SELL THE TRANSPETROL SHARES --

15. (C) According to Jahnatek, the main reason he turned to the Russians is because he does not see any other realistic avenues for quickly accomplishing the primary GOS objective of regaining management control of Transpetrol. He told us that the best option would be a buy-back of the shares, but that the GOS could not wait indefinitely for this to take place since the government will lose veto rights over any deal next April. He is frustrated that the directors of YI, who also represented YF when Jahnatek negotiated the original buy-back plan in early April, have not been able to complete the deal in a manner free of legal delays.

16. (SBU) There is a realistic chance that the GOS will be successful in changing their TP Board members and regaining majority control of the board at the November 20 EGM if both the GOS and Rebgun are on board with the plan. Completing a subsequent sale of the TP assets to Gazpromneft or any other entity is more complicated. As outlined in reftel, neither YI or YF has uncontested ownership of the shares, with YI as the beneficial owner and YF as the legal owner. A September 21 decision in a Dutch court casts doubt on Rebgun's authority to represent YF, and will not be resolved until a case against Yukos Oil in Russia pending before the European Court of Human Rights in Strasbourg is completed. At the request of YI, another Dutch judge has summoned Rebgun to a hearing in March, 2007 with the purpose of determining whether Rebgun can legitimately represent YF. YI lawyers have indicated that they are considering other options and would take all necessary actions to stop Rebgun for selling

the Transpetrol stake without their consent. This would include attempting to stop any change in the management structure of Transpetrol that would jeopardize YI's rights, and giving management control to the Slovaks could reduce the value of the 49 percent TP stake to the detriment of the creditors. This would likely be contested in both the Dutch and New York courts.

-- STILL OPEN TO OTHER OPTIONS? --

¶7. (C) In addition to his meeting with Jahnatek and his deputy in the economy ministry, Peter Ziga, Steve Hellman also met with Foreign Minister Jan Kubis, TP Board Chairman Stephen Czucz, TP board member Jan Kridla, Head of the Parliamentary Committee on the Economy Maros Kondrot (who is close to Fico), and an American lawyer who represents YI in Slovakia. Prime Minister Fico canceled his meeting with Hellman and Ambassador due to a last minute meeting of the coalition council.

¶8. (C) Recognizing that the Slovaks are moving forward in negotiations with the Russian government to meet their primary objectives, Hellman encouraged the GOS to keep other options on the table. One possible scenario would involve completing the transfer of the Transpetrol shares from YF to YI by getting approval from the current members of the TP board, who remain friendly to YI, for an EGM that would address this one issue. Once YI has complete control of the shares they could complete a sale to the GOS. As is the case with other options, this plan would certainly be challenged in court by Rebgun and possibly others. This option would be off the table if the GOS changes the composition of the board to include two Rebgun representatives.

¶9. (C) State Secretary of Economy Ziga expressed his doubts about this possible avenue, but was amenable to following up with Slovak lawyers to determine if this would be a realistic option. Kondrot, on the other hand, is strongly opposed to any deal other than a 100 percent GOS buyback of the shares, and wanted to pursue this option more vigorously. Kondrot said he would raise the issue with Fico on October 25, and told us that he would work to convince the prime minister to continue to pursue the buy back option. In the past President Gasparovic has also supported a GOS repurchase of the shares.

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-- COMMENT --

¶10. (C) After working very closely with Jahnatek on this issue for the past three months, we were disappointed to learn that he has been less than forthright in his discussions with us in recent weeks. Nevertheless, his position to seek a deal with Moscow is understandable given the murky legal questions surrounding this transaction and the pressure he is under to get both a quick deal and maintain good relations with the Russian government. It is not clear that Russia would be willing to give up management control of Transpetrol and, given the legal uncertainties, whether it can get a strong enough commitment to transfer the assets from YF to Gazpromneft at a later date. Jahnatek will therefore likely be under significant pressure during his visit to Moscow to water down the GOS demands for greater control of Transpetrol. He has been invited for a private bear hunt, which the Russians will use to further influence him. Because of this, we will continue to encourage the GOS to keep other options on the table. Although he is now pursuing a different plan, Jahnatek's negotiating position with the GOR is significantly stronger given the possibility of a YI to GOS transfer authored by Steve Hellman and the Embassy. End Comment.

Steve Hellman has not cleared on this cable.
VALLEE